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T H E C O T T O N S I T U A T I O N

Summary

Considerable improvement in the cotton situation during the past month is reported by the Bureau of Agricultural Economics. Increased domestic cotton consumption, substantial improvement in the competitive price position of American cotton in foreign markets, and greatly increased exports of American cotton were important developments during the month. Mill consumption of cotton in foreign countries appears to have changed comparatively little. A near-record world supply of nearly 50 million bales of cotton is indicated despite the reduction in the October estimate of the United States crop. Of this total, about 26 million bales are American cotton.

The daily rate of cotton consumption in the United States in September was 10 percent above August, and apparently increased still further in early October. Consumption in September was the largest on record for that month. It was equivalent to an annual rate of about 7-3/4 million bales, which is nearly 1 million bales larger than consumption last season and nearly as large as the record high consumption of 7,950,000 bales in 1936-37.

United States exports of cotton totaled 1,470,000 bales from August 1 to October 25. This was a 47-percent increase over exports to the same date last season, about the same as the quantity exported during the like period in 1937, and considerably smaller than the 10-year (1923-32) average. Registration of sales and deliveries of cotton for Government export payments up to October 25 totaled 3,026,000 bales. This was slightly more than twice

the actual exports. Registrations during the 4 weeks ended October 25 exceeded actual exports by about 21,000 bales or 3 percent.

Since the domestic cotton export subsidy went into effect in late July, the Liverpool price of American cotton has declined materially in relation to most of the important foreign growths. Prices in the United States, in late October advanced to a point about 1/2 cent above those at the end of August. The recent ratios of the price of Indian Oomra and Brazilian Sao Paulo to American cotton at Liverpool have been the most favorable from the standpoint of the competitive position of American cotton for approximately 1 $\frac{1}{2}$ to 2 years. The Liverpool price of Egyptian Uppers has recently been the highest relative to American since last March. In Japan the price of American cotton is also reported to have declined materially in relation to the price of Indian cotton since July.

Mill consumption of cotton in Europe is apparently running at a level not materially lower than before the outbreak of the European War. In Great Britain, Italy, and possibly some other European countries, increased consumption is believed to have largely offset probable declines in the German-controlled areas and some possible decline in France. Consumption in the Orient has declined slightly.

The decrease of nearly 500,000 bales in the October estimate of the United States crop reduced the indicated world supply of American cotton from slightly above to slightly below the record supply of 1932-33. The reduction in the indicated crop was equivalent, however, to less than 2 percent of the indicated world supply of American cotton of nearly 26 million bales. It was equivalent to only about 1 percent of the near-record indicated world supply of all cotton of nearly 50 million bales.

PRICES

Domestic prices relatively steady
since mid-September

Domestic cotton prices fluctuated within a comparatively narrow range during most of the past 4 weeks at a level about one-fourth cent above prices as of the first of September. Middling $7/8$ inch cotton in the 10 markets for the most part remained at around $8-3/4$ cents, or a little higher than in mid-September. This was about one-fourth cent above prices for September 1 and one-fifth cent above the October 1938 average, but somewhat lower than those recorded about a week after the outbreak of the war between Germany and the allies. In the third and fourth week of October prices gained about one-fourth cent. While the European War has greatly disrupted export trade with Germany the possible price effect of this apparently has been more than offset by the large increase in exports to other countries and the improved domestic consumption outlook.

Liverpool prices of foreign growths materially
increased relative to American since July

Since the domestic cotton export subsidy became effective in late July the competitive position of American cotton in Great Britain has become much more favorable. On July 28, prices of Indian Comra #1 Fine, Egyptian Uppers Fully Good Fair, and Brazilian Sao Paulo Fair were equivalent to 69.6, 108.0, and 93.5 percent, respectively, of the prices of American Middling Fair Staple (approximately $7/8$ inch). On October 20, however, these price ratios were 79.4, 113.8, and 98.5 respectively. The recent price ratios of Indian Comra and Brazilian have been the most favorable from the standpoint of the competitive position of American cotton for approximately $1\frac{1}{2}$ to 2 years. The price of Egyptian Uppers has recently been the highest relative to American since last March. In addition to the export subsidy, the larger supplies of "free" American cotton are a factor also tending to lower the price of American cotton relative to foreign growths as compared with the situation existing toward the end of last season. It is also possible that ocean freight rates and the availability of shipping facilities since the outbreak of submarine warfare have been to the advantage of American cotton to some extent. In Japan the price of American cotton has also declined relative to that of Indian since July.

Shortly after the beginning of the general European War, the spread between the price of American Middling $7/8$ inch cotton at Liverpool and at New Orleans increased to almost 2.5 cents per pound compared with a spread of from 1.05 to 1.50 cents during July and August. This sharp increase is apparently due largely to increased freight rates and the uncertainty as to the difficulties to be encountered in transporting cotton under submarine warfare, along with the drop in the dollar value of the Pound Sterling. Since October 6, the spread between New Orleans and Liverpool has narrowed materially and varied

Table 1.- Cotton: Spot price per pound, specified growths at Liverpool and New Orleans, specified periods

	Liverpool								New Orleans	
	American		Indian	Egyptian		Brazilian		American		
Season	:		Fine Oomra	l.	F.G.F. Uppers	Fair, Sao Paulo	Middling 7/8 in.			
month	Mid-	Low	As a %	As a %	As a %	As a %	As a %	Spread		
or day	dling	Mid-	Ac-	of Am-	Ac-	of Am-	Ac-	of Am-	Ac-	
	7/8	dling	tual	erican	tual	erican	tual	erican	tual	
	inch	:	:	Mid.	:	Mid.	:	Mid.	:	
	Cents	Cents	Cents	Percent	Cents	Percent	Cents	Percent	Cents	
10-yr. av.:										
1927-28										
to 36-37	14.50	13.60	11.19	78.0	17.12	117.9	14.08	97.7	12.65	
									1.85	
1936-37	14.62	13.16	10.87	74.4	17.40	119.0	14.12	96.6	12.79	
1937-38	10.31	8.78	7.96	77.1	13.10	126.7	10.18	98.7	8.79	
1938-39	10.15	8.71	7.14	70.4	11.80	116.5	9.63	94.9	8.73	
									1.42	
1938-39										
Feb.	10.02	8.55	6.95	69.4	11.56	115.4	9.53	95.1	8.60	
March	10.17	8.71	6.85	67.4	11.58	113.8	9.68	95.2	8.69	
April	9.67	8.21	7.02	72.6	10.90	112.7	9.19	95.0	8.61	
May	10.55	8.97	7.45	70.6	11.08	105.0	9.83	93.2	9.30	
June	11.04	9.38	7.61	68.9	11.47	103.9	10.18	92.2	9.45	
July	10.61	8.95	7.31	68.9	11.43	107.7	9.85	92.8	9.37	
Aug.	10.16	8.53	7.38	72.6	11.35	111.7	9.37	92.2	8.95	
Sept.	11.10	9.69	8.47	76.3	12.37	111.4	10.60	95.5	9.02	
									2.08	
July 28	10.53	8.87	7.33	69.6	11.37	108.0	9.85	93.5	9.35	
Aug. 4	10.30	8.64	7.27	70.6	11.47	111.4	9.52	92.4	9.21	
11	10.18	8.52	7.29	71.6	11.27	110.7	9.40	92.3	9.01	
18	10.02	8.37	7.37	73.6	11.10	110.8	9.24	92.2	8.92	
25	10.25	8.67	7.67	74.8	11.66	113.8	9.42	91.9	8.76	
Sept. 1	10.03	8.53	7.55	75.3	11.27	112.4	9.23	92.0	8.66	
8	11.88	10.44	8.95	75.3	13.33	112.2	11.12	93.6	9.42	
15	11.23	9.88	8.63	76.8	12.47	111.0	10.91	97.2	9.10	
22	11.27	9.86	8.71	77.3	12.89	114.4	10.94	97.1	8.89	
29	11.28	9.85	8.67	76.9	12.10	107.3	10.94	97.0	9.01	
Oct. 6	10.80	9.37	8.35	77.3	12.04	111.5	10.46	96.9	8.97	
13	10.45	9.20	8.23	78.8	11.94	114.3	10.20	97.6	8.87	
20	10.59	9.43	8.41	79.4	12.05	113.8	10.43	98.5	8.82	
									1.77	

Compiled from reports of the Liverpool Cotton Exchange except for the last 3 weeks which are from cables to the Bureau of Agricultural Economics or from reports of the New York Cotton Exchange. Prices were reported in pence per pound and converted to cents per pound at current rates of exchange.

between 1.55 and 1.85 cents per pound.. This seems to be accounted for, to at least a considerable extent, by the large British imports of American cotton and to less concern as to the effects of the war on the future imports into Great Britain.

EXPORTS

United States exports up about one-third

From August 1 to October 25, total exports of American cotton, of 1,470,000 running bales as reported by the New York Cotton Exchange, were 47 percent above the very small exports of the corresponding period last year. They were about the same as exports during the like period in 1937. Up to October 25, sales and deliveries of cotton for export, as registered with the Department of Agriculture for export payments, amounted to 3,026,000 bales, which was slightly more than twice as large as actual exports to the same date. During the 4 weeks ended October 25, registration of sales and deliveries for export totaled approximately 811,000 bales and actual exports amounted to about 790,000 bales.

During the month of September, a total of 649,000 bales of American cotton was exported compared with 389,000 bales in September 1938, an increase of approximately 67 percent. Despite the marked increase, September exports were about one-ninth less than the 10-year (1923-32) September average. From August 1 to the end of September, exports were officially reported at 868,000 bales or 47 percent more than in the first 2 months of the last season. The largest absolute increase was in exports to the United Kingdom, the 334,000 bales exported to the United Kingdom being nearly six times as large as the small exports a year earlier and the largest for these 2 months since 1924. During these 2 months, exports to Italy and Belgium were respectively 48 and 138 percent larger than in the corresponding months last year. Exports to Japan and France were 48 and 16 percent smaller.

During August, total exports from India and Brazil were 42 and 17 percent, respectively, larger than in August last year while exports from Egypt were about the same as a year earlier. Exports from India and Egypt to Germany in August this year were from one-third to two-thirds less than in August last year, but exports from Brazil to Germany were nearly 50 percent larger than in August 1938. It is quite possible, however, that a substantial portion of the exports to Germany may fail to reach their destination as a result of the French and British blockade. Since the outbreak of the war, exports from India have not been reported. The Liverpool Cotton Association has also ceased to report imports of cotton into Great Britain.

Cotton: Exports from specified countries, average 1923-24 to 1932-33, and seasons 1937-38 to date

Country of origin and destination	September					August to September				
	10-yr.av.:					1939	10-yr.av.:			1939-40
	1923-24	1937	1938	1939	as a %	1923-24	1937	1938	1939	as a %
	to	1937	1938	1939	of	to	-38	-39	-40	of
	1932-33				1938	1932-33				1938-39
	1,000	1,000	1,000	1,000		1,000	1,000	1,000	1,000	
	running	run.	run.	run.	Per-	run.	run.	run.	run.	Per-
	bales	bales	bales	bales	cent	bales	bales	bales	bales	cent
United States to:										
Germany	222	89	37	5	13.5	298	139	62	27	43.5
United Kingdom:	139	298	35	262	748.6	186	256	59	334	566.1
France	88	114	74	49	66.2	133	143	96	81	84.4
Italy	54	68	26	46	176.3	81	92	40	59	147.5
Spain	32	0	1	40	4000.0	46	0	2	51	2550.0
Belgium	16	20	12	31	258.3	24	28	16	38	237.5
Canada	10	10	11	17	154.5	16	16	26	26	100.0
Japan	95	25	96	49	51.0	124	42	149	77	51.7
China	19	1/	1	12	1200.0	33	1/	1	12	1200.0
Other coun.	56	83	96	138	143.8	94	111	139	163	117.3
Total	731	617	389	649	166.8	1,035	838	590	868	147.1
August										
	1,000	1,000	1,000	1,000		1,000	1,000	1,000	1,000	
	bales	bales	bales	bales	Per-	bales	bales	bales	bales	Per-
British India to:	478 lb.	478 lb.	478 lb.	478 lb.	cent	478 lb.	478 lb.	478 lb.	478 lb.	cent
Japan	73	76	76	89	117.1					
Italy	15	6	5	1	20.0					
China	17	3	0	36	--					
Belgium	12	10	4	6	150.0					
Germany	13	13	13	5	38.5					
United Kingdom:	9	9	17	19	111.8					
France	9	4	6	7	116.7					
Other coun.	8	14	10	23	230.0					
Total	156	135	131	186	142.7					
September										
Egypt to										
United Kingdom:	23	39	27	51	188.9	46	53	52	79	151.9
France	7	17	7	6	85.6	18	24	20	19	95.0
United States:	5	2	1	12	1200.0	13	3	3	15	500.0
Germany	6	23	15	--	--	12	32	33	12	36.3
Italy	5	10	10	2	20.0	9	15	19	10	52.6
Japan	2	3	10	6	60.0	4	4	24	19	79.2
British India :	1	8	3	13	433.3	1	10	8	18	225.0
Other coun.	12	26	23	32	139.1	32	36	46	56	121.7
Total	61	128	96	122	127.1	135	177	205	228	111.2
August										
Brazil to										
Japan	3/	40	53	56	105.7					
United Kingdom:		27	44	32	72.7					
Germany		26	34	50	147.1					
France		5	26	17	65.4					
Italy		1	9	11	122.2					
Netherlands ...		2	6	8	133.3					
Belgium		3	4	4	100.0					
Other coun.		13	8	38	475.0					
Total	4	117	184	216	117.4					

Compiled from official sources. 1/ Less than 500 bales. 2/ Includes Austria.

3/ Not available by countries.

DEMAND AND CONSUMPTION

UNITED STATES: Mill activity and domestic demand
further improved

Domestic mill activity has trended upward during recent weeks and is at an exceptionally high level. Despite comparatively small sales of cotton textiles by domestic manufacturers since the latter part of September, most manufacturers are said to possess orders sufficient to maintain the current rate of activity for many weeks ahead. This, along with the recent increase in industrial production, payrolls and employment, makes it seem quite likely that domestic cotton mill consumption will continue at exceptionally high levels for some time.

Domestic mill consumption during September, of 625,000 running bales, was 17 percent larger than consumption in September last year and the third largest on record. The daily rate of consumption in September was about 10 percent above August and the highest for the month of September on record. Should the September daily rate of consumption be maintained during the rest of the current season, domestic cotton mill consumption will total about 7,700,000 bales. This would be much larger than the 6,860,000 bales consumed last season and nearly as large as the record high of 7,950,000 bales consumed in 1936-37. In the first 2 weeks of October the New York Times index of domestic cotton consumption averaged 138 percent of normal compared with 127 in September.

In September, the index of industrial production advanced to 110, the highest for any month since September 1937. Additional increases in industrial production are expected during the remainder of 1939 as the large orders now on hand in a number of important industries are filled. A rate of industrial output approximating the June 1929 peak may be attained before the end of the calendar year. This should result in additional employment and larger payrolls and constitute an important factor favorable to the maintenance or further increase in the present high rate of domestic mill consumption.

EUROPE: Dislocations in mid-October less
than in early September

European cotton trade developments during September and the first half of October, the first six weeks of war, were featured by widespread dislocations. Following a virtual standstill of trading in the first half of the month, cotton and mill business around the middle of September resumed more nearly normal aspects in the United Kingdom. On the Continent, however, the persistence of abnormal conditions is extensive.

With the Havre cotton exchange closed and a number of regulations making trading for ordinary commercial channels difficult, the French cotton industry's business entered upon a period of suspense. Mill operations, also, seem handicapped by the mobilization of workers. In Germany and all of the territory of previous Austria, Czechoslovakia and Poland, civilian

consumption of cotton goods by ordinance of the German authorities, or in consequence of the campaign in Poland, has been curtailed to very low figures, while military requirements are only partly offsetting this reduction in ultimate offtake. Raw cotton supplies to this territory apparently have been cut off to a large extent, and available stocks could not for any length of time support normal mill activity. As a result, it is not unlikely that some decline in mill consumption has occurred. The loss to the traditional cotton-exporting countries, if imports into this Central European area were cut off completely, would be in the neighborhood of 2,000,000 bales per annum - the normal mill consumption in that territory. This is from 25 to 30 percent of total European mill consumption.

There is little information available from the neutral countries, but so far dislocations that have occurred seem to be moderate. Shipments of American cotton to these countries in the past six weeks, and since the first of the season, have generally been much above the corresponding periods of 1938. It is understandable that, with the possibility of a neutrality legislation in the United States that may make it impossible for American merchantmen to enter designated European waters, even neutral countries in Europe should endeavor to have shipped as much American cotton as possible before such restrictions are imposed. Italy, it seems, is likely to benefit in some measure from the dislocations to which the trade of other European countries are subjected. If anything, cotton mill activity there, along with export sales of cotton goods, appears on the increase. Spain, on the way to restoring her cotton textile industry to peace-time activity, has already registered substantial arrivals of American cotton, compared to none a year ago.

Ample arrivals of raw cotton in the United Kingdom since the outbreak of war have greatly eased the tension that existed in the first half of September. Mill business was resumed, with a larger share of total trade directly or indirectly accounted for by government orders, or by measures of civil defense. Export business since the middle of September has been of fair, though reduced, volume. Increases in production costs, actual as well as expected, have only partly been mitigated in foreign markets by the depreciation of sterling. The establishment of a Cotton Board on September 17 has so far not resulted in any momentous move of industrial and market regimentation. In fact, the cotton industry and market are one of the few important lines of the nation's business which till now have remained free from drastic control interference. As from September 11, price-pegging at Liverpool has been practically abandoned and the market restored to normal. Cotton mill activity in the United Kingdom continues high.

Some interesting moves have recently been reported regarding the disposal of the Egyptian cotton crop. The British Government is said to have been approached by the Egyptian authorities with a proposal that Britain should purchase the entire Egyptian crop. This, however, apparently has been superseded by a modified suggestion previously put forward in Egyptian quarters. This suggestion was that Britain should take over a share of the

Egyptian crop, amounting to normal British imports plus normal Egyptian exports to the territory now under German control. On an average over the five seasons ending 1937-38, mills in the United Kingdom consumed 570,000 bales (of 478 pounds net) of Egyptian cotton. Average consumption in Germany, Czechoslovakia, Poland and Austria combined was about 300,000 bales.

UNITED KINGDOM

To the relief of the Lancashire cotton trade, the initial wartime difficulties encountered at the beginning of September soon gave way to more nearly normal trading circumstances which permitted the resumption of business. Following about a week's period of virtual standstill, trading in raw cotton, yarn and piece-goods was resumed in substantial proportion and continued fairly active into the first half of October. The industry, both spinning and weaving, is reported to be well occupied at nearly 90 percent of normal - thus showing further increase in activity from the enhanced mid-year levels. Official mid-September returns, however, indicate a slight increase in cotton industry unemployment compared with the middle of August. Yet unemployment in the cotton industry was still much below mid-September 1938.

The basic condition which permitted the return to active trading in September was the improvement in the Liverpool raw supply situation. Arrivals of raw cotton - figures for which are no longer available - are judged to have been substantial, and a good deal of Southern hedging provided contracts for hedges against forward sales of yarn. Raw cotton prices at Liverpool, both spot and futures, as a result, eased considerably.

Limits to price fluctuations for futures which were rigidly based on September 4 quotations, operated to establish maximum prices. Beginning September 11, limits of 25 penny points up or down were based on the respective previous closing quotations. This measure, in combination with an improved supply situation, restored the market to normal with nominal quotations soon disappearing. As from October 10 the fluctuation limits have been widened to 50 points on the previous close.

Some anxiety has been expressed in British cotton trade quarters lest prospects for future raw cotton imports should be seriously interfered with by the consequences of the expected neutrality legislation in the United States. So far, arrivals of raw cotton seem to have been rather plentiful. Forwardings to spinners in the United Kingdom have also been substantial during September. A fair share of this cotton, however, does not reflect mill consumption, but rather shipment for storage up-country and in mills - a diversion of stocks from the ports in accordance with government instructions. Forwardings from September 1 to October 5, 1939, were 296,000 running bales, compared to only 203,000 bales in the corresponding period of 1938. Forwardings of American cotton totaled 120,000 bales in the 1939 period, compared with only 102,000 bales for 1938.

Lancashire War-Time Business -

The outbreak of war increased the volume of home trade which directly or indirectly was accounted for at least to a considerable extent by government orders. There have also been considerable sales in dark curtain materials for black-out purposes, cotton sandbags and other cloths for civil defense. Furthermore, ordinary commercial sources increased their demand in expectation of further price increases and possible future difficulties in securing supplies. As a result, producers found themselves unable to accept all the business offered them. There has been a pronounced reluctance on the part of producers to accept orders for delivery more than three or four months ahead - not only because machinery should be kept available for urgent government requirements, but also because the position as to future production costs is somewhat obscure. Higher costs of raw material, compulsory insurance of commodity stocks on hand, provision of Air Raid Precautions at the mills, and the impending substantial increase in the wages of cotton operatives (who have asked for a 20 percent increase) combine to make a very extensive further increase in production costs likely. Prices of yarn and piece-goods, as well as such charges as printing, dyeing, bleaching and packing, have already been marked up considerably.

These factors naturally were not without effect upon Lancashire's export business, which bears the additional burden of higher marine war-risks and freight rates. To some extent, however, the depreciation of about 16 percent of sterling has mitigated these influences. While India, the Near East and Egypt have bought very little in September, business with South America, the West Indies, West Africa and Northern Europe was larger than in August.

Government Control -

(a) Foreign Trade - Basic authority for the Board of Trade to prohibit or regulate by order the importation into, or exportation from, the United Kingdom of goods is laid down in the Import, Export, and Customs Powers Defense Act (1939), dated September 1, 1939. On the basis of this enabling act, the Board of Trade has prohibited the importation, except under license, of manufactures wholly or mainly of cotton, wool, silk or rayon, or mixtures thereof, other than yarns made from cotton, wool, silk, rayon or mixtures thereof. Similar prohibition has also been placed on the exportation of raw cotton, cotton linters and cotton waste to most ports or destinations in Europe or in the Mediterranean or Black Seas. The exportation of any kind of article to any enemy territory is, of course, disallowed under a general prohibition.

These measures indicate a policy intended to restrict imports of manufactured articles, while allowing the importation of raw materials and semi-manufactures such as yarns. On the other hand, the exportation of manufactures is to be promoted but exportation of raw materials will be curtailed.

(b) Cotton Board - On September 17, 1939, a Cotton Board was set up, as expected, following extended consultations between the Board of Trade and the Lancashire cotton industry. Sub-committees have been appointed to deal with (1) raw cotton supplies, (2) production and government orders, (3) export trade, and (4) essential commodities. The most important object of the Board will be the provision of all government requirements, including home defense and hospitals. Equally important, it was pointed out, is the encouragement of cotton goods' exports. It is indicated that in the long run compulsory powers of various kinds might be required by the Board to fulfil its essential task. For example, it is envisaged that some fixing of prices will have to take place, and if that is the case, a regulation of raw material supplies and deliveries as between the export and home trade may become unavoidable. In view of this, large numbers of spinners and manufacturers, while accepting any government orders, are selling no more in ordinary commercial channels than is necessary to maintain friendly relations with customers of long standing.

On October 12 the Board announced that it expects shortly to issue fixed standard margins for the spinning and doubling of American and Egyptian yarns and that it is considering the introduction of price control for manufacturing and finishing. Control of margins in the cotton spinning industry has been in operation on a voluntary basis for several years and the experience then gained will facilitate any necessary compulsory control.

Some of the functions which the Cotton Board is to perform will doubtless be the supervision of trade and mill operations under the Priority of Works Order, 1939, dated September 3 and made by the Minister of Supply under the Defence Regulations 1939. According to this order, any Government Department, notified by the Central Priority Department of the Ministry of Supply of the fact that a particular order is a priority order, may issue a certificate to assure that the execution of this order shall take precedence over contracts not so, or less urgently, classified.

Proposed Egyptian Cotton Deal -

It is reported that sometime ago Egyptian authorities proposed to the British Government that Britain purchase the entire 1939 Egyptian crop. In early October, however, this proposal apparently had been dropped and a modified suggestion was being considered. Under this proposal Great Britain would take over a share of the Egyptian crop amounting to the normal British imports plus normal Egyptian exports to the territory now under German control. In this connection, it may be noted that war-time requirements for special fabrics are likely to increase British needs for Egyptian cotton. On an average, over the 5 seasons ending 1937-38, mills in the United Kingdom consumed 570,000 bales (of 478 pounds net) of Egyptian cotton. Average consumption in Germany, Czechoslovakia, Poland, and Austria combined was about 300,000 bales.

FRANCE

Cotton mill operations and ordinary mill business since the outbreak of war, judged from the meager information available at the present time, seem to have suffered from a combination of impediments to normal activity. The Havre market has been closed since the opening of hostilities and though price quotations in the United States and Liverpool have been available, a precise evaluation of raw cotton costs in France was rendered extremely difficult. The increase in freight rates, war risk insurance and exchange depreciation combined to obscure the cost position, and the raw cotton situation was further influenced by the scarcity of raw cotton stocks in France at the beginning of this season. This scarcity, unlike conditions in the United Kingdom, has not been significantly alleviated. In fact, exports of American cotton to France from August 1 to September 30 were equivalent to only 84 percent of the comparatively small exports during the corresponding period last year.

Official decree regulations aiming at the establishment of priority supplies for the fighting services and other essential war requirements seem to have significantly interfered with the sale of cotton goods for civilian consumption and export purposes, even though, theoretically at least, everything is to be done to promote and maintain exports. These initial difficulties in an economy which attempts transition from a relatively free into a considerably controlled status are expected to be overcome in the near future. Meanwhile a decree law prohibiting price increases over and above the level obtained on September 1, 1939, has also placed some obstacles in the way of civilian business activity. For even though price increases accounted for by the increase in the price of imported raw material are to be tolerated, the exact implications of this legislation, especially in its relation to existing stocks or forward commitments for the raw material, are not entirely clear. In the circumstances private business, other than for Government orders, was extremely restricted, - a considerable demand meeting with reluctance or inability of spinners and manufacturers to sell.

It is reported that there has been some absorption of qualified textile labor into the fighting services which necessitated some reduction in mill operations in places. There is some dissatisfaction among operatives with the rather severe war-time legislation affecting wages as well as money salaries and hours of work. It is understood that a special levy of 15 percent is to be imposed on all wages and salaries for men between 18 and 49 who have not been drafted. An extension of weekly working hours from 40 to 45 per week, without any increase in weekly wages, is also authorized by decree law and a further increase in weekly hours in industry generally up to 60 is allowed. Only 75 percent of the normal weekly wage per hour for this overtime is to go to the worker, while 25 percent are to be collected into a special fund for the support of needy families of workers called to the colors.

CENTRAL EUROPE

To gauge the significance of the previous relative importance of the central European raw cotton market - the territory at present under German

control - it should be noted that Germany, Czechoslovakia, Poland and Austria on the average over a number of recent years imported and consumed a total of roughly 2,000,000 bales per annum. About 800,000 bales, or 40 percent, were American cotton. In a protracted war at least most of this consumption seems likely to be lost to the traditional cotton exporting countries, assuming the British and French blockade is largely successful. Moderate quantities of cotton for central European consumption may be provided by Russia - quantities which perhaps otherwise would not have entered export channels.

In a total European mill consumption excluding Russia, averaging a little over 8 million bales during recent years, a decline by 2 million bales would be a grave development from the standpoint of the exporting countries. How severely it would affect the supply of cotton-type textile goods to consumers in central Europe may be gauged from the fact that in Germany, for example, imported cotton and cotton waste accounted for perhaps 70 percent of the raw material from which cotton-type textiles were produced. In Poland, Czechoslovakia and Austria - where cell-wool and reclaimed fibers played only a minor role - that share was probably in the neighborhood of 90 percent. If it is further considered that military and civil defense requirements will rise, it becomes obvious that the supply of cotton-type textiles for ordinary civilian consumption in central Europe - in a protracted war - must needs be reduced to a desperately low level. Existing stocks of raw cotton, yarn and manufactures are small and will provide little alleviation of this condition.

ORIENT: Cotton consumption declines slightly in Japan;
unchanged in India and China

Cotton yarn production and cotton consumption in Japan were slightly smaller in September than in August or than in September last year, and the smallest for nearly 10 years. They were about two-fifths less than in September 1937 before the restrictions growing out of the conflict in China became effective. The low level of cotton yarn production is reported to be due in part to a shortage of electric power and fuel but perhaps to a large extent to restrictions on the supplies of foreign exchange for the purchase of raw cotton and restrictions on the use of cotton goods by consumers in Japan as well as in other areas under Japanese control.

Japanese exports of cotton cloth in September of 226 million square yards were the second largest since December 1938 and are said to have exceeded production. The previous excess stocks are now reported to be practically eliminated. In early September, orders for piece goods increased considerably but to a smaller extent than the Japanese contracts for raw cotton. As a result, it is reported that the stocks of and contracts for raw cotton are the largest for sometime in relation to current requirements. The Finance Ministry has recently made unusual efforts to insure foreign exchange for raw cotton imports and as a result the payment situation in early October improved perceptibly. This, along with an improved outlook for Japanese cotton textile exports, is favorable to the maintenance or increase of cotton mill consumption in Japan in the immediate future. The reported shortage of electric power



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and fuel, however, is unfavorable. Since August the price of American cotton in Japan has become more favorable relative to Indian from a competitive standpoint. As a result, purchases of American cotton in September are thought to have exceeded purchases of Indian by a substantial margin. During the past season, imports of Indian cotton exceeded imports of American.

Cotton mill consumption in China, including Manchuria, apparently continued in the neighborhood of 125,000 bales during August and September. This is an annual rate of about 1,500,000 bales, which is believed to be roughly the amount consumed by Chinese mills in the past season. While there are widely conflicting reports as to the size of the 1939 crop, the American Agricultural Commissioner in China is now estimating the crop at about 1,900,000 bales, which is considerably smaller than the relatively small 1938 crop. This, along with large non-factory consumption and restrictions on the movement of Chinese cotton, makes it seem likely that imports of Indian, American, and other cotton into China during the current season may equal or exceed those of 1938-39 when they were respectively 541,000, 89,000, and 144,000 bales.

The approximately 255,000-bale (400-pound bales) consumption of Indian cotton by mills in India during September was approximately the same as consumption in August. This made the seventh consecutive month in which the consumption of such cotton by Indian mills was between 244,000 and 258,000 bales. While the September figure was about 3 percent below that of September 1938, it was considerably larger than in any other September in history.

ACREAGE, PRODUCTION, STOCKS, AND SUPPLY

World supply continues at near record level despite reduction in American crop

A world supply (carry-over on August 1, plus production or ginnings) of all cotton for the current season of about 49,900,000 bales is now indicated. This is only slightly less than that of the previous season and about 1.6 percent less than the record high supply of 1937-38. The indicated world supply of American cotton is now a little less than 26 million bales, second only to the record 1932-33 supply of 26,200,000 bales, despite a reduction of nearly 500,000 bales in the October estimate of the United States crop. The indicated supply of American cotton is nearly 4 million bales larger than the average for the 10 years 1928-37. Present estimates of the foreign commercial crop and the carry-over of foreign cotton indicate a supply for the present season which is about 1 million bales less than that of the preceding season, 2 million bales less than the record supply of 1937-38. It is, however, nearly one-fourth larger than the average for the 10 years 1928-37.